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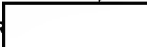
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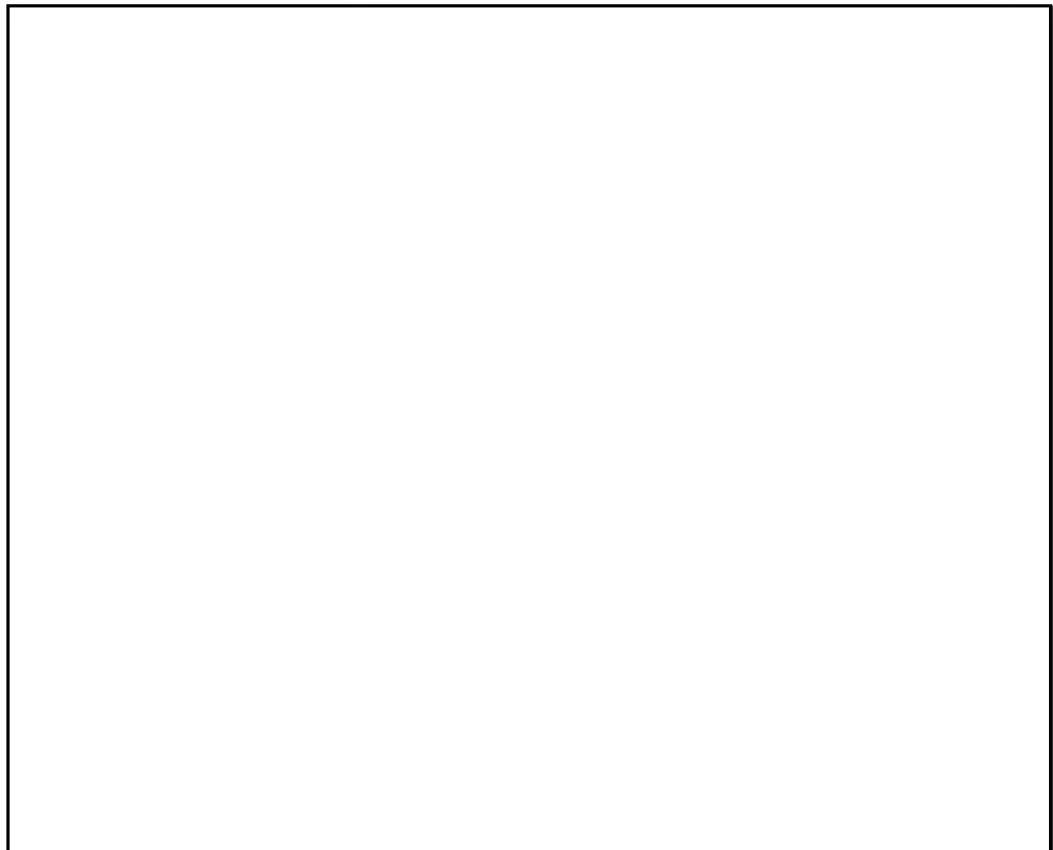
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TOP SECRET

State Department review completed

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1. JAPANESE LEFTISTS PLAN ANTI-US RALLY

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The Japan Socialist Party, in co-operation with the leading leftist organizations in Japan, plans a large-scale demonstration on 15 June to demand the abolition of the "unequal treaties" with the United States. Socialist sources have told the embassy that the Communist rank and file will probably participate in the demonstrations, which will be held on the eve of Prime Minister Kishi's departure for Washington. The timing of the rally is designed to put the Socialists in a position to attack Kishi on his return for the "failure" of his mission to realize popular aspirations.

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Comment

Leftists in Japan have refrained from violence since the 1952 May Day incident, which caused a severe loss in popular support for the Communist Party. Lessening of the furor over the Girard case, which the rally originally intended to exploit, has eliminated some of the danger of violence, but the Communists reportedly intend to keep the issue alive by demanding severe punishment.

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**3. INDONESIAN GOVERNMENT REPORTEDLY MAY USE
AIR FORCE AGAINST SUMUAL**

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The Djakarta government may resort to bombing in an effort to depose Lt. Col. Sumual, territorial commander in East Indonesia, if current negotiations with army chief of staff General Nasution fail,

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recent changes within Sumual's command effected by Nasution had so far failed to solve the problem since Sumual stated he will not leave his post unless forced to do so.

Comment

Sumual has shown no disposition to surrender his command, although recent talks in Makassar between Nasution and East Indonesian commanders appear to be aimed at achieving a peaceful settlement.

Continued efforts by the central government toward a bloodless coup in East Indonesia, using any resources at its command, can be anticipated. Force, however, may be employed as a final alternative. The air force and the navy, both quite small, are loyal to the government.

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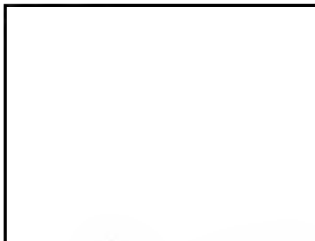
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4. WEST GERMAN OPINION INCREASINGLY FAVORS FIRST-STEP EUROPEAN INSPECTION ZONE

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The American embassy in Bonn reports that majority sentiment in West Germany is increasingly receptive to a European inspection zone as part of

a first-step disarmament agreement, despite Chancellor Adenauer's apparent resistance to this proposal. In his statements on the subject to date, Adenauer has indicated a fear that any approval by Bonn of an inspection zone including German territory would be viewed by West Germans in an election year as abandoning Bonn's pressure for progress on reunification.

Many influential West German politicians and newspapers--including some of the opposition--have recently stressed that even though such a first-stage agreement assumes the continuing partition of Germany, Bonn should do nothing to disturb the London negotiations, since the only road to reunification leads through a general detente and agreement on disarmament.

The embassy feels that public opinion in an election year may bring Adenauer to endorse a first-step agreement even if it is limited to Europe, while at the same time stressing its importance in creating a better atmosphere for reunification.

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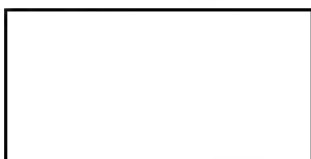
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**5. BRITISH STATEMENT REGARDING BRITISH SHIPS
TRADING WITH COMMUNIST CHINA**

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A British Admiralty spokesman has declined specific comment on recent Chinese Nationalist warnings that British merchant ships trading with

Communist China will be fired upon, but stated that the Royal Navy will "afford protection" to such ships. He stated that British ships can always call for protection "on the high seas."

Comment

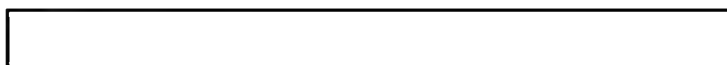
Britain has used similar language to state its policy on numerous previous occasions, but presumably still wishes to avoid involvement with the Nationalists on this issue. In the past, Royal Navy commanders have exercised great caution in contacts with Nationalist units, and Britain has at no time maintained a systematic naval patrol in the Taiwan area.

The Royal Navy now has two cruisers, three destroyers, and three frigates in the Far East.



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6. GOMULKA DISCUSSES AMERICAN LOAN

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Gomulka's speech of 5 June to Poznan workers of the Cegielski factory, where last year's riots started, reaffirms Poland's intention to follow a course designed to reap economic benefits from both the East and West. He endorsed acceptance of an American loan, although he disabused those who expected miracles from Western economic aid. He assured the workers that the US credit of \$95,000,000 would be approved, but complained that it was too small and the interest rate higher than that charged by Communist nations. He emphasized, however, that the aid was important since it would not only help to alleviate Poland's present economic difficulties, but could pave the way to a relaxation of international tensions.

Gomulka promised Poland would continue to seek such aid from the West. While he is known to be suspicious of the West, he nonetheless probably sees Western ties as advantageous for his economy and a form of insurance against Soviet domination.

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**8. INDONESIAN GOVERNMENT REPORTEDLY FACES
SERIOUS FINANCIAL CRISIS**

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An official of the Bank of Indonesia has expressed serious concern to American embassy officers over the effect of the sharp decrease in legal exports on the country's budget and balance of payments.

The value of government export permits for April and May is 40 to 50 percent below the average. He attributed the situation to the increase in barter arrangements and smuggling in the disaffected provinces. The bank official stated that unless the government can come to terms with the provinces without delay, the financial situation will be "virtually hopeless."

Comment

Indonesian national income is largely dependent on the export of a limited variety of agricultural products, petroleum and tin. The bulk of these exports is produced in the non-Javanese provinces, currently engaged in a bloodless revolution with the central government over the issue of regional autonomy. Revenue derived from the production of foreign companies in Indonesia still goes to Djakarta, but agricultural produce in the hands of Indonesians--particularly copra in East Indonesia and rubber in Sumatra--is increasingly being diverted into direct barter trade with foreign ports, with the result that the central government cannot collect import and export charges.

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ANNEX

No. 357

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Watch Report 357, 5 June 1957
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee, the
Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
- C. Early deliberate initiation of hostilities by Israel or the Arab states is not probable. Although tensions continue between the Arab states and Israel and among certain Arab states themselves, these are not likely to lead to serious conflict in the immediate future.

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